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*La circulation fiduciaire et le marché monétaire en Italie pendant et après la guerre.* (Roma: Banque d'Italie. 1920.)

*Proceedings of the Arizona Bankers' Association, vol. XIV, seventeenth annual session.* (Prescott: Morris Goldwater, Secretary. 1920. Pp. 133.)

*Proceedings of the ninth annual convention of the Investment Bankers Association of America.* (Chicago: Frederick A. Fenton, Secretary, 111 West Monroe Street. 1920. Pp. 285.)

Contains: Report of the committees on public service securities, pp. 116-131; Present public utility problems, by C. D. Jackson, pp. 132-145; Report of the industrial securities committee, pp. 153-166; Report of the municipal securities committee, pp. 167-173; Report of the committee on railroad securities, pp. 177-188; Report of the committee on syndicate agreements, pp. 189-205; "Transportation act, 1920," in its relation to railway securities, by Robert Walker, pp. 223-237.

*Standards of living: a compilation of budgetary studies.* (Washington: Bureau of Applied Economics. 1920. Pp. iv, 156.)

This volume is a revised expansion of the previous compilations of studies of living costs made by the Bureau of Applied Economics in 1918 and 1919. It contains summaries or abstracts of the nineteen most important attempts to fix the family budget. The first article is the 1920 "quantity budget" of the United States Bureau of Labor Statistics; the pioneer money budgets of Chapin and Moore are in the later pages.

The compilation is so well done that the serious student can obtain a comprehensive understanding of the principles and the methods of the various budgetary investigations. It makes it comparatively easy for a social worker in any city to determine the cost of living in his community. Indeed, the book is an invaluable tool for any one interested in standards of living and living costs.

F. H. S.

*Survey of cost of living in Waterbury, March 1919-March, 1920.* (Waterbury: Chamber of Commerce. 1920. Pp. 24.)

*Tate's modern cambist.* Twenty-sixth edition. Edited by H. T. EASTON. (London: Wilson. 1921.)

*Trust companies of the United States.* 1920 edition. (New York: U. S. Mortgage & Trust Co. 1920. Pp. xxxix, 619.)

As usual contains complete returns, maintaining the high standard of the series.

### Public Finance, Taxation, and Tariff

*Tax Procedure, 1921.* By ROBERT M. MONTGOMERY. (New York: Ronald Press Company. 1921.) Vol. I, *Federal Income Tax Procedure, 1921.* (Pp. xii, 1,206. \$8.00.) Vol. II, *Federal Excess Profits Tax Procedure, 1921.* (Pp. vi, 594, \$4; Volumes I and II together \$10.) Vol. III, *New York State Income Tax Procedure, 1921 (Including Corporation Franchise Tax).* (Pp. ix, 682. \$5.00.)

Of the making of income tax rulings there is no end. Hence there

is no end to the making of books to guide the perplexed taxpayer. During 1920 there were more new rulings and regulations than were made in any previous year. The government itself came, very tardily it would seem, to the rescue with a series of "bulletins," and cumulative "digests" of income tax rulings, which already run into huge bulk. The bulletins cover: *Treasury Decisions, Opinions of the Attorney General, Solicitor's Law Opinions, Solicitor's Memoranda, Solicitor's Opinions, Committee on Appeals Recommendations, Committee on Appeals Memoranda, Office Decisions, and Court Decisions.* The income tax rulings, we are officially instructed on the covers of the bulletins, "constitute a source of information from which taxpayers and their counsel may obtain the best available indication of the *trend and tendency* (the italics are mine) of official opinion in the administration of the income and profits tax provisions of the Revenue act." But the officers of the Bureau of Internal Revenue, and perforce the taxpayers, are warned that the "rulings should be used merely *as aids in studying the law.*" (Italics mine.) All of which is cited to show that there is still use, possibly more use than ever, for private enterprise to prepare for the taxpayer an intelligent interpretation of the force, meaning, and application of the so-called rulings as well as of the law. The government will not state "thus and so is the law," so the taxpayer must get the best advice he can. Hence no apology need be offered for a new edition of this authoritative guide.

The greatest difficulty with the rulings is that they are, of necessity no doubt, confined to the narrow point immediately before the department in each instance and seldom establish a principle of general applicability; hence, since "there can be no assurance that any new case is identical with the reported case" (a warning printed on all the bulletins), the taxpayer has "no assurance" of anything until his own case has been settled—and even then not until the statute of limitation has run.

The new edition adds to the old all the new rulings. It gives them the same kind of careful, helpful comment and criticism that was found in the earlier editions. Differences of opinion have arisen during the year between the department and the courts, and court decisions have been rendered which are not wholly consistent one with another so that attorneys are now reduced to discussing, as Professor T. R. Powell recently expressed it, "the best psychological evidence of what the Supreme Court will decide." The accountant, however, cannot enter into the psychological realm and our author devotes himself strictly to telling the taxpayer what he must do in the premises, and what he may expect if he doesn't do it, as well as what will happen when he does, and how he may protect his rights so as to take advantage of any

future favorable ruling. It short, he gives that practical advice which the taxpayer wants to have.

It is difficult in the extreme to pick out for the purposes of this review the most important new things in the book and we doubt whether after we have made a few selections others will agree with us as to their importance.

There is, of course, no doubt about the widespread interest in the so-called stock dividend decision (March 8, 1920) although it is fiscally of little importance. This is now accepted law and is fairly well known. Our author refrains from criticism and contents himself with showing how the taxpayer may comply with the law. The regulations even yet do not properly interpret that decision and our author points out wherein the regulation "must eventually conform" to the law. Thus, for example, he says: "It is clear that the recipient of a stock dividend when being taxed on the proceeds thereof is entitled to the benefit of the normal tax which the corporation has already paid on the earnings since March 1, 1913."

Perhaps we may not go altogether astray in selecting the already famous Brewster case, which was decided by the United States District Court of Connecticut, December 16, 1920. Despite the shortness of the time he had, our author makes comment on this case in no less than four appropriate places in his book. In this decision a courageous judge adopts the common man's, or every day, idea of income as being a recurrent series of payments more or less regular in character, and holds that Congress has no power to extend the definition to cover "gains" and "profits" from the sale of capital assets which have appreciated while being held as capital investments. To the economist, as to the layman, there is much of plain common sense about this decision. To the lawyer it will remain, until the Supreme Court speaks, a puzzle whether the sixteenth amendment gave Congress power to tax both income and "gains," "profits," etc., accruing on the capital side of the ledger. Our author does not seem pleased with the decision in the Brewster case, although he refrains from direct comment. But to the reviewer it appears that the decision is right as to the meaning of income; that if it be held to be desirable to tax capital increment values they should not be taxed under the false name of income but as taxable items under some other tax, provided the sixteenth amendment removed the apportionment restrictions from such a tax; that the matter is badly complicated by the statutory permission to deduct business capital losses, depreciation, and obsolescence from income; and, finally, that it would be much better if the correction of the matter could be made by Congress instead of the courts, because a court decision would wipe out so large a part of the war revenues

collected and spent and which for the most part may well be considered part of by-gone history. In short, may we not hope that even if the Supreme Court reverses the decision of Judge Thomas, Congress will revise the law so as to define income as that wise judge sees it. After all is said and done, can there be any increment of value in capital (save by addition from savings) which is not the result of an increase in income current or anticipated? Is not income the cause of capital value, and can an effect be at the same time the cause?<sup>1</sup>

Another interesting new item is the opinion of the Attorney General on community income, which as to residents of those states having community property laws, permits husband and wife to divide their income tax returns, each being taxable on one half of the joint personal and property earnings save and except that from pre-marital separate holdings. It is obvious that this lowers the taxes payable by lessening that part of the income subject to the surtax rates. Our author forecasts that this privilege will be extended to residents of other states, either by an amendment to the statute or by the general adoption by taxpayers of expedients already available, such as taking wives into partnership. He very justly remarks that the privileges and benefits resulting from living in California and in the other states having the community property law are already so great that it is hardly necessary to enhance them by a special advantage under the income tax. Possibly the ladies of eastern states may also be relieved of some of their disabilities by this very gallant ruling of the late Attorney General. One thing is certain and that is that the ruling is in line with the better thought as to the application of the income tax to family incomes. Surely there is reason in abating the present surtaxes as far as family income is concerned. We have to refrain for lack of space from discussing other new features of the income tax law so ably presented by our author.

The excess profits tax is still with us, despite the fact that our author was rash (he says "optimistic") enough in his 1920 edition to prophesy its repeal during 1920. The tax is covered in a volume of nearly 600 pages. The new rulings he has to discuss are numerous. We still lack a Supreme Court decision as to what is invested capital and many of the novel ideas on which the tax is based are undefined. The new rulings are so highly technical and involved that we cannot comment on them without unduly extending this review.

There are pending in the Supreme Court many vital questions as to income and excess profits taxes. The new Congress is expected to

<sup>1</sup> The above was written before the decision of the Supreme Court reversing the Brewster case was handed down. See comment below.

take up seriously a revision of the law. One very grave difficulty confronts the Supreme Court in deciding points of law as to both the income tax and the excess profits tax and that is that these taxes were both established as war taxes, were enforced to raise money as quickly as possible, and interpreted and administered by the department far more for sake of revenue than in the desire to establish rules which should in the long run do justice and work equity. To reverse these rulings now will mean reimbursement of large sums which the government can ill spare, not to upset the rulings means a perpetuation of serious inequalities and wrongs. The dilemma is exceedingly unpleasant. An early revision of the law by Congress might relieve the court to a large extent of the embarrassment of the second horn of the dilemma.

Since the above was written and just before going to press, the news dispatches report that the Supreme Court has ruled that Congress *has* the power to tax profits of all kinds and that the provisions of the income tax law covering profits not of the nature of income *are* constitutional. It remains now for Congress to amend the law correcting the double taxation which arises from the taxation of the increment in investment property values caused by an increase in the taxed income therefrom. The validity of the war taxes has been sustained, but that they are valid is not a good reason for continuing unjust taxes in times of peace.

The third volume in the above series has also arrived just in time for a brief mention. It begins with a brief review of state income taxes and then takes up in detail the New York income tax and the corporation franchise tax. The New York income tax, it will be remembered, is modelled on the federal income tax. The main difference is that it is a personal income tax. Corporations are covered by the franchise tax on net receipts under a separate law. Business earnings are reported by the ultimate recipient and not by the firm. Then there are the necessary differences arising from the fact that it is a state tax. Thus incomes, salaries, and interest from federal sources are exempt and those from state sources are taxed. The taxation of non-residents receiving incomes from or earning income in New York involves differences. New Yorkers were not content to have a resident of so foreign a country as New Jersey or Connecticut come over, work in New York, and carry home his earnings, without paying a New York tax. That such an individual might be quite adequately taxed at home was not sufficient unless he be taxed by an income tax of equal amount. Out of this principal difference many little ones arise, none of very great importance.

The third volume is complete in itself and should there be a person who has to pay the New York tax and no federal tax he would find all he needs in this volume. But since every one does pay a federal tax the book is arranged on the assumption that having already made up his federal tax return the taxpayer now wishes instruction as to how to adjust the figures so as to fit the New York return. In addition to the general discussion of each provision of the law, there are forms enabling the taxpayer to set forth side by side the figures for the federal and those for the state return. Some important court decisions are reprinted in full as is the New York statute itself. The book is thus very complete, indeed.

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*Introduction to Public Finance.* By CARL C. PLEHN. (New York: The Macmillan Company. 1920. Pp. xix, 446.)

This is the fourth edition of a very widely used elementary textbook, in fact the only one in this field of recent enough date and sufficient scope to be used as the foundation of a course in public finance. For this reason its appearance will be welcomed by all teachers of that subject. But it must be said that a course in which this was the only text, or in which the teacher did not take great pains to check up and supplement the information therein contained, would be highly unsatisfactory.

The necessary criticisms are of two sorts: criticisms of the book and criticisms of the revision. Taking the second first, we find numerous evidences of carelessness in bringing statements of fact down to date. I mention only a few: on page 44 it is stated that the abuse of the pension system ceased about 1900, although the Sherwood act dates only from 1913; on page 48 there is a statement which implies that the United States has not had a protective tariff since 1909; the description of the British income tax in the chapter on tax systems takes no account of the reforms of 1909; on page 145 it is stated that the proportion of United States federal income yielded by import duties is now slightly less than one half the total. Some of the revisions made are not incorporated in the text but added as appendices, formal or otherwise; for example, the chapter on the growth of public debts stands as in the previous edition, even as to the tables of statistics. On the other hand, two new and helpful chapters are added on the growth of public expenditures and on the war and excess profits taxes, and the chapter on the financial administration of wars is completely revised and modernized. In general it may be said that the theoretical part of the work has been more carefully gone over than the descrip-